The Blackstone Group

MEMORANDUM

TO: Deepak Moorjani

FROM: Bret Pearlman

RE: Fund Documents

DATE: November 29, 1999

As we discussed, I have attached an overview of the Fund's provisions which we thought merited some discussion. Our attorney, Bob Pelgrift of Simpson Thacher & Bartlett can be reached at (212) 455-3565.

Thank you.

- The 2.5% management fee is equal to the highest fee payable by Blackstone to the other funds. Moreover, it is combined with only an 80% offset for fees received from portfolio companies and an ambiguous and otherwise questionable provision for the allocation of expenses between the GP and the Fund. As indicated the PA provides that the GP will pay from the management fee only the administrative expenses of the GP and its affiliates and equity holders, while charging the Fund for routine operating expenses for the Fund . . . and "other expenses" determined by it to be consistent with other expenses payable by the Fund. It is unclear how the distinction is to be made and how the expense provision can be justified in light of the high management fee. The cap on organizational expenses ($750,000) to be charged to the Fund is about twice that of the other Blackstone funds (including much larger funds).

- There does not appear to be any GP clawback provision (although the PPM and any ancillary documents that we may not have seen, should be examined to confirm this).

- The limitations on conflicts of interest are eviscerated by provisions that allow the GP Group to engage in any activities on behalf of their clients and themselves, regardless of any conflict of interest and that relieve the GP Group from the duty to act for the benefit of the Fund because of duties owed to third parties in connection with the GP Group's outside activities.

- It is not customary to provide that the Fund's participation may be on terms different from those granted to the GP and its owners in the GP's discretion to grant co-investment rights.

- The absence of any limitation on successor funds is not typical.

- The provision requiring the LPs to pay the management fee directly to the GP is unusual. (Certain language in the PA suggests that the GP may pay these fees on behalf of the LPs form their capital contributions (see PA § 6.8 (c)(i), p. 32), but this needs to be clarified.